

Unofficial Translation

BANK INDONESIA REGULATION
NUMBER 8/13/PBI/2006
CONCERNING
AMENDMENT TO BANK INDONESIA REGULATION
NUMBER 7/3/PBI/2005 CONCERNING THE LEGAL LENDING LIMIT FOR
COMMERCIAL BANKS

THE GOVERNOR OF BANK INDONESIA,

- Considering :
- a. whereas to enhance their role in the economy, it is necessary for banks to pursue measures that will support economic growth, including financing of the real sector;
 - b. whereas in the financing of the real sector, banks are persistently required to apply prudential principles, among other things, by a good risk management, especially of the risk related to concentration risk;
 - c. whereas in order to establish a good risk management banks have been required to apply risk management and principles of good corporate governance in their business activities;
 - d. whereas therefore it is deemed necessary to enact renewed provisions concerning the legal lending limit for commercial banks in a Bank Indonesia Regulation.

In view of...

- In view of :
1. Act Number 7 of 1992 concerning Banking (State Gazette of the Republic of Indonesia Number 31 of 1992, Supplement to the State Gazette of the Republic of Indonesia Number 3472) as amended by Act Number 10 of 1998 (State Gazette of the Republic of Indonesia Number 182 of 1998, Supplement to the State Gazette of the Republic of Indonesia Number 3790);
 2. Act Number 23 of 1999 concerning Bank Indonesia (State Gazette of the Republic of Indonesia Number 66 of 1999, Supplement to the State Gazette of the Republic of Indonesia Number 3843) as amended by Act Number 3 of 2004 (State Gazette of the Republic of Indonesia Number 7 of 2004, Supplement to the State Gazette of the Republic of Indonesia Number 4357);
 3. Bank Indonesia Regulation Number 7/3/PBI/2005 concerning The Legal Lending Limit for Commercial Banks (State Gazette of the Republic of Indonesia Number 13 of 2005, Supplement to the State Gazette of the Republic of Indonesia Number 4472);

HAS DECREED :

To enact : BANK INDONESIA REGULATION CONCERNING
AMENDMENT TO BANK INDONESIA REGULATION
CONCERNING THE LEGAL LENDING LIMIT FOR
COMMERCIAL BANKS

Chapter I

A number of provisions in Bank Indonesia Regulation Number 7/3/PBI/2005 concerning the Legal Lending Limit for Commercial Banks (State Gazette of the Republic of Indonesia Number 13 of 2005, Supplement to the State Gazette of the Republic of Indonesia Number 4472) are amended as follows.

1. Provision in Article 1 number 22 is amended to read in full as follows.

Article 1

Terminology used in this Bank Indonesia Regulation means as follows.

1. “Bank” is a Commercial Bank as referred to in Act Number 7 of 1992 concerning Banking as amended by Act Number 10 of 1998, including a branch office of a foreign bank.
2. “Legal Lending Limit”, hereinafter referred to as LLL, is the maximum permitted provision of funds stated as a percentage of Bank capital.
3. “Provision of Funds” is any placement of Bank funds in the form of :
 - a. credit;
 - b. securities;
 - c. placement;
 - d. securities purchased under reverse repurchase agreement;
 - e. acceptances;
 - f. credit derivatives;
 - g. off balance sheet items;
 - h. derivative claims;
 - i. potential future credit exposure;

j. equity ...

- j. equity participation;
 - k. temporary equity participation;
 - l. other provision of funds equivalent to letter a through k.
4. “Capital” is :
- a. tier 1 and tier 2 capital for a Bank having its head office in Indonesia; or
 - b. net head office funds, for a branch office of a foreign bank, as stipulated in Bank Indonesia provisions concerning Bank Capital Adequacy Requirement for Commercial Banks.
5. “Related Party” is any individual or company/entity exercising control over the Bank, whether directly or indirectly, through ownership, management, and/or financial relation.
6. “Violation of the LLL” is the excess of the percentage of Provision of Funds to Bank Capital over the permitted LLL percentage at the time of extension of the Provision of Funds.
7. “Excess of the LLL” is the excess of the percentage of Provision of Funds to Bank Capital over the permitted LLL percentage at the reporting date and does not include the Violation of the LLL as referred to in number 6.
8. “Credit” is the Provision of Funds or equivalent claims based on a lending agreement or contract between the Bank and another party requiring the borrowing party to repay the debt at a specified term with interest, including :
- a. overdraft, namely negative balance in a customer’s demand deposit that cannot be settled in full at end-of-day;

b. takeover...

- b. takeover of claims under the framework of factoring;
 - c. takeover or purchase of credit from other parties.
9. “Securities” are debt instruments, drafts, bonds, credit securities, or any derivative thereof, or other interest, or a liability from an issuer in any form customarily traded on the capital and money market.
 10. “Placement” is a placement of Bank funds at another bank in the form of demand deposit, interbank call money, time deposit, certificate of deposit, credit, and other similar fund placements.
 11. “Securities Purchased under Reverse Repurchase Agreement” is any purchase of Securities from another party accompanied by an agreement for resale to the other party at end of period at a price or return agreed in advance (reverse repurchase agreement).
 12. “Acceptances” are claims arising from acceptances of bills of exchange.
 13. “Derivative Claims” are claims arising from potential gain on an agreement/contract for derivative transactions (positive difference between contract value and fair market value of the derivative transaction at the reporting date), including potential gain from mark to market on ongoing spot transactions.
 14. “Potential Future Credit Exposure” is the entire potential gain from a derivative transaction agreement/contract over the duration of the contract, determined based on a specified percentage of the national amount of the derivative transaction agreement/contract.
 15. “Equity Participation” is a placement of Bank funds in the form of shares in another bank or other company operating in the financial sector as stipulated in the applicable laws and regulations, such as leasing

company...

company, venture capital company, securities company, insurance company, and clearing house, including placement in convertible bonds with equity options or certain kinds of transactions from which the Bank holds or will hold shares in a bank and/or other company operating in the financial sector.

16. “Temporary Equity Participation” is an Equity Participation by a Bank in a debtor company to resolve credit failure (debt to equity swap), including placement in convertible bonds with equity options or certain kinds of transactions from which the Bank holds or will hold shares in the debtor company.
17. “Off Balance Sheet Items” are commitment liabilities, including but not limited to issuance of guarantees, letter of credit (L/C), standby letters of credit (SLBC), and/or other commitment and contingent liabilities, except for undisbursed loans.
18. “Borrower” is an individual or a corporate/legal entity customer that obtains Provision of Funds from a Bank, including :
 - a. debtor, for Provision of Funds in the form of Credit;
 - b. Securities issuer, Securities seller, investment manager of a collective investment contract, and/or reference entity, for Provision of Funds in the form of Securities;
 - c. protection buyer and/or reference entity, for Provision of Funds in the form of credit derivatives;
 - d. applicant, for Provision of Funds in the form of guarantee, L/C, SBLC, or other similar instruments;
 - e. investee, for Provision of Funds in the form of Equity Participation;

f. Bank ...

- f. Bank or debtor, for Provision of Funds in the form of acceptances;
 - g. counterparty, for Provision of Funds in the form of Placement and derivative transaction;
 - h. any other party required to settle claims owed to the Bank.
19. “Reference Entity” is the indebted party or obligor of underlying reference assets, including :
- a. issuer of Securities stipulated as underlying reference assets;
 - b. obligor for transferred credit or claims stipulated as underlying reference assets.
20. “Board of Commissioners”
- a. for a company legally incorporated as a Limited Liability Company is the board of commissioners as referred to in Article 1 number 5 of Act Number 1 of 1995 concerning Limited Liability Companies;
 - b. for a company legally incorporated as a Regional Government Enterprise is the board of commissioners as referred to in Article 19 of Act Number 5 of 1962 concerning Regional Government Enterprise;
 - c. for a company legally incorporated as a Cooperative is the board of supervisors as referred to in Article 38 of Act Number 25 of 1992 concerning Cooperatives,
- including any officer appointed to perform supervisory function.
21. “Board of Directors”
- a. for a company legally incorporated as a Limited Liability Company is the board of directors as referred to in Article 1 number 4 of Act Number 1 of 1995 concerning Limited Liability Companies;

b. for a company...

- b. for a company legally incorporated as a Regional Government Enterprise is the board of directors as referred to in Article 11 of Act Number 5 of 1962 concerning Regional Government Enterprise;
 - c. for a company legally incorporated as a Cooperative is the management as referred to in Article 29 of Act Number 25 of 1992 concerning Cooperatives,
including any officer with authority commensurate to those of the Board of Directors.
22. “Executive Officer” is an officer possessing influence on Bank or company policies and operations, including managers of internal audit, accounting, and risk management units of the Bank/company.
2. Provision in Article 2 is amended to read in full as follows.

Article 2

- (1) Banks are required to apply prudential principles and risk management in the extension of Provision of Funds, especially Provision of Funds to Related Parties, large exposures, and/or Provision of Funds to other Parties with interest on the Bank.
- (2) As part of the application of prudential principles and risk management as referred to in paragraph (1), Banks are required to have written policy guidelines and procedures on Provision of Funds to Related Parties, large exposure, and/or Provision of Funds to other Parties with interest on the Bank.
- (3) The scope of the policy guidelines and procedures as referred to in

Paragraph (2)...

paragraph (2) shall cover at least :

- a. standards and criteria for selection and assessment of the creditworthiness of Borrower and Borrower group;
 - b. standards and criteria for establishment of limits on Provision of Funds;
 - c. management information system for Provision of Funds;
 - d. monitoring system on Provision of Funds; and
 - e. establishment of remedial actions to resolve any concentration of Provision of Funds.
- (4) The written policy guidelines and procedures concerning Provision of Funds as referred to in paragraph (3) shall apply at least the same or greater degree of prudence than the policy and procedures for the implementation of credit risk management in general;
- (5) The written policy guidelines and procedures concerning Provision of Funds as referred to in paragraph (3) shall be reviewed periodically once every year;
- (6) The written policy guidelines and procedures concerning Provision of Funds as referred to in paragraph (3) shall constitute an integral part of the policy, procedures, and determination of credit risk as stipulated in Bank Indonesia provisions concerning the Application of Risk Management for Commercial Banks.

3. Provision in Article 8 is amended to read in full as follows.

Article 8

(1) The scope of Related Party covers :

a. any individual...

- a. any individual or company/legal entity exercising control over the Bank;
- b. any company/legal entity on which the Bank exercises control;
- c. any individual or other company/legal entity exercising control of the company as referred to in letter b;
- d. any company in which :
 - 1) an individual and/or company/legal entity as referred to in letter a exercises control;
 - 2) an individual and/or company/legal entity as referred to in letter c exercises control;
- e. the Board of Commissioners, Board of Directors, and Executive Officers of Bank;
- f. any party with family ties to the second degree, whether by horizontal or vertical lines of descent :
 - 1) with an individual person exercising control of the Bank as referred to in letter a;
 - 2) with the Board of Commissioners, Board of Directors, and Executive Officers of the Bank as referred to in letter e.
- g. the Board of Commissioners, Board of Directors, and Executive Officers of the company as referred to in letter a, letter b, letter c, and/or letter d;
- h. any company/legal entity which its members of the Board of Commissioners, members of the Board of Directors, and/or Executive Officers are :
 - 1) members of the Board of Commissioners, members of the

- Board of Directors, and/or Executive Officers at the Bank;
- 2) members of the Board of Commissioners, members of the Board of Directors, and/or Executive Officers at the company/legal entity as referred to in letter a and letter b;
 - i. any company/legal entity of which 50% (fifty percent) or more of members of the Board of Commissioners and Board of Directors constitute members of the Board of Commissioners, Board of Directors, and/or Executive Officers as referred to in letter c and/or letter d;
 - j. any company/legal entity in which :
 - 1) members of the Board of Commissioners, members of the Board of Directors, and/or Executive Officers of the Bank as referred to in letter e exercise control;
 - 2) members of the Board of Commissioners, members of the Board of Directors, and/or Executive Officers of parties as referred to in letter a, letter b, letter c, and/or letter d exercise control;
 - k. any company/legal entity possessing financial interdependence with the Bank and/or the party as referred to in letter a, letter b, letter c, letter d, letter e, letter f, letter g, letter h, letter i, and/or letter j;
 - l. any collective investment contract in which the Bank and/or parties as referred to in letter a, letter b, letter c, letter d, letter e, letter f, letter g, letter h, letter i, and/or letter j hold 10% (ten percent) or more of the shares in the investment manager for the collective investment contract;

m. any ...

- m. any Borrower that is an individual or non-bank company/legal entity extending a guarantee to any of the parties as referred to in letter a through l;
 - n. any Borrower holding a guarantee from the parties as referred to in letter a through l;
 - o. any other bank extending a guarantee to any of the parties as referred to in letter a through l insofar as there is a counter-guarantee from the Bank and/or parties as referred to in letter a through l to the other bank;
 - p. any other company/legal entity with interest on the parties as referred to in letter f.
- (2) A controlling party as referred to in paragraph (1) letter a, letter b, and letter c is an individual person or a company/legal entity which directly or indirectly :
- a. individually or collectively holds 10% (ten percent) or more of shares of the Bank or other company/legal entity;
 - b. holds options or other rights to ownership of shares which, if exercised, would bring that party, either individually or collectively, about to hold and/or control 10% (ten percent) or more of the shares of the Bank or other company/legal entity;
 - c. is acting in concert to exercise control over the Bank or the company/legal entity, with or without any written approval of the other party, so as individually or collectively to hold and/or control 10% (ten percent) or more of the shares of the Bank or other company/legal entity;

d. is acting ...

- d. is acting in concert to exercise control over the Bank or other company/legal entity, with or without the written approval of the other party, so as to collectively hold option or other rights to acquire shares which, if exercised, would bring these parties about to acquire joint ownership and/or control of 10% (ten percent) or more of the shares of the Bank or other company/legal entity;
 - e. has authority and/or capacity to approve, appoint, and/or dismiss members of the Board of Commissioners and/or Board of Directors of the Bank or other company/legal entity;
 - f. has controlling influence on strategic policy of the Bank or other company/legal entity;
 - g. controls 1 (one) or more other companies which on the whole hold and/or collectively control 10% (ten percent) or more of shares of the Bank or other company/legal entity;
 - h. exercises control over any of the controlling parties as referred to in letter a and letter g.
- (3) A party shall exercise control as referred to in paragraph (1) letter d and letter j if an individual or other company/legal entity directly or indirectly :
- a. holds 10% (ten percent) or more shares of other company/entity and this portion of ownership is the largest portion;
 - b. individually or collectively holds 25% (twenty five percent) or more of the shares of other company/entity;
 - c. holds options or other rights to ownership of shares which, if exercised, would bring that party about to acquire ownership and/or

control of ...

control of 10% (ten percent) or more of the shares of the other company/legal entity as referred to in letter a or b;

- d. is acting in concert to exercise control over other company/legal entity, with or without written agreement with other party, so as to collectively own and/or control shares of other company as referred to in letter a or letter b;
- e. is acting in concert to exercise control over other company/legal entity, with or without written agreement with other party, so as to collectively own option or other rights to own shares which, if exercised, would cause these parties collectively own and/or control shares of other company/legal entity as referred to in letter a or letter b;
- f. has the authority and/or capability to approve, appoint, and/or dismiss members of the Board of Commissioners and/or Board of Directors of other company/legal entity;
- g. has capacity to control influence on other company's/legal entity's strategic policies.

4. Provision in Article 12 is amended to read in full as follows.

Article 12

- (1) A Borrower shall be classified as a member of a Borrower group as referred to in Article 11 paragraph (2) if the Borrower holds a control relation with other Borrower whether through ownership, management, and/or financing, covering as follows.
 - a. the Borrower exercises control over other Borrower;

b. the same ...

- b. the same party exercises control over several Borrowers (common ownership);
 - c. the Borrower has financial interdependence with other Borrower;
 - d. the Borrower issues a guarantee to take over and/or settle a part or the whole liabilities of other Borrower in the event of default by the other Borrower toward the Bank;
 - e. members of the Board of Directors, members of the Board of Commissioners, and/or Executive Officers of the Borrower are members of the Board of Directors and/or of the Board of Commissioners of other Borrower.
- (2) Party exercising control as referred to in paragraph (1) letter a and letter b is any party exercising control as referred to in Article 8 paragraph (3).
5. Provision in Article 23 paragraph (1) letter d is amended to read in full as follows.

Article 23

- (1) Provision of Funds by a Bank shall be categorized as Exceeding the LLL if it is caused by any of the following.
- a. decline in Bank capital;
 - b. movement in exchange rate;
 - c. change in fair value;
 - d. merger and/or change in management structure resulting in change in Related Parties and/or Borrower group;
 - e. amendment to regulatory provisions.
- (2) Formulation of Borrower in calculation of Excess of the LLL is based on

stipulation ...

stipulation as referred to in Article 13 through Article 22.

- (3) Excess of the LLL shall be calculated on the basis of the recorded value on the reporting date.

- 6. Provision in Article 24 paragraph (4) is amended to read in full as follows.

Article 24

- (1) The Bank shall prepare and submit an action plan for the resolution of the Violation of the LLL and/or Excess of the LLL.
- (2) The action plan as referred to in paragraph (1) shall state at least the steps to be taken to resolve the Violation of the LLL and/or the Excess of the LLL and the targeted timeframe of resolution.
- (3) The targeted timeframe of resolution as referred to in paragraph (2) is stipulated as follows.
 - a. for Violation of the LLL, no later than 1 (one) month since the submission of the action plan to Bank Indonesia.
 - b. for Excess of the LLL caused by matters as referred to in Article 23 letter a, letter b, and letter c, no later than 9 (nine) months since the submission of the action plan to Bank Indonesia.
 - c. for Excess of the LLL caused by matters as referred to in Article 23 letter d, no later than 12 (twelve) months since the submission of the action plan to Bank Indonesia.
 - d. for Excess of the LLL caused by matters as referred to in Article 23 letter e, no later than 18 (eighteen) months since the extreme date limit of the submission of action plan as referred to in Article 25 paragraph (3).

(4) If the...

- (4) If the targeted timeframe of resolution as referred to in paragraph 3 is considered unreachable, Bank, under Bank Indonesia approval, may determine different timeframe of resolution from the timeframe as referred to in paragraph (3).

- 7. Provision in Article 30 is amended to read in full as follows.

Article 30

- (1) If Government blanket guarantee scheme does not cover Placements, the Placements shall constitute a component of Provision of Funds calculated into the LLL.
- (2) If Placements are not covered in the Government blanket guarantee scheme, the portion of Placements comprising Interbank Placements within Indonesia on the money market for liquidity management purposes with maturity up to 14 (fourteen) days shall be exempted from the LLL provisions.

- 8. Provision in Article 37 is amended to read in full as follows.

Article 37

The classification of Borrower group as referred to in Article 12 is exempted for Credit extended to customers (end-users) through a finance institution under channeling method insofar as the following requirements are met.

- a. The Bank supervises assessment of creditworthiness conducted by the finance institution in regard to the customers (end-users);
- b. The Bank has direct risk on Provision of Funds extended to customers (end-users);

- c. A Credit agreement is made between the finance company's customers (end-users) and the Bank or a party authorized to act on behalf of and in the name of the Bank;
 - d. payment from customers (end-users) is in favor of the Bank; and
 - e. the finance institution does not guarantee to take over or to settle a part of or the whole liabilities of a customer (end-user) in the event that the customer fails to settle its liabilities to Bank.
9. Provision in Article 40 is amended to read in full as follows.
- Article 40
- (1) Provision of Funds for state owned enterprise (SOE) in the purpose of development is set at a maximum of 30% (thirty percent) of Bank capital.
 - (2) Any ties between a Bank incorporated as a SOE or a Regional Government Enterprise (RGE) and a Borrower incorporated as a SOE and/or RGE shall be exempted from the definition of Related Party as referred to in Article 8 insofar as the ties are solely on account of direct ownership of the Government of Indonesia.
 - (3) SOEs and/or RGEs shall not be treated as Borrower group as referred to in Article 12 insofar as the ties are solely on account of direct ownership by the Government of Indonesia.
10. Between Article 40 and 41 is inserted 3 (three) new articles, namely Article 40A, 40B, and 40C, to read as follows.

Article 40A

The Provision ...

The Provision of Funds for company/legal entity as referred to in Article 8 paragraph (1) letter b which is controlled by Bank through the Bank pension fund is exempted from calculation of the LLL to Related Parties as referred to in Article 4 provided that it fulfills the following requirements.

- a. The controlling relation between the Bank and the company/legal entity which is controlled through the Bank pension fund is caused only by ownership of the pension fund on the company/legal entity; and
- b. The Provision of Funds is extended on an arm's length basis and in accord with applicable general procedures of Provision of Funds.

Article 40B

(1) Provision of Funds to parties as referred to in :

- a. Article 8 paragraph (1) letter c;
- b. Article 8 paragraph (1) letter d number 2);
- c. Article 8 paragraph (1) letter g, letter j number 2), letter k through letter o, only for parties as referred to in Article 8 paragraph (1) letter c and letter d number 2,

are exempted from calculation of the LLL to Related Parties as referred to in Article 4 provided that it fulfills specific requirements.

(2) Following are those specific requirements as referred to in paragraph (1).

- a. The controlling relation between Bank and the parties as referred to in Article 8 paragraph (1) letter c and/or Article 8 paragraph (1) letter d number 2) due nothing else than to ownership relation;
- b. The Provision of Funds is extended on an arm's length basis and in accord with applicable general procedures of Provision of Funds; and

c. The Provision ...

- c. The Provision of Funds is extended by Bank when the Bank is not placed under intensive supervision by Bank Indonesia.
- (3) Banks which are not placed under intensive supervision by Bank Indonesia as referred to in paragraph (2) letter c are banks which comply with criteria :
- a. possesses a minimum composite level of 3 in soundness;
 - b. does not have actual and/or potential problem toward composite risks;
 - c. does not have violation and/or excess of the LLL;
 - d. does not have violation of foreign exchange net open position;
 - e. possesses reserve requirement ratio at the same level or higher than the statutory ratio;
 - f. possesses non-performing credit ratio less than 5% (five percent); and
 - g. does not have basic profitability problem.

Article 40C

- (1) Provision of Funds for company/legal entity which its members of the Board of Commissioners, the Board of Directors, and/or Executive Officers constitute :
- a. members of the Board of Commissioners of Bank as referred to in Article 8 paragraph (1) letter e; and/or
 - b. relatives of the members of the Board of Commissioners as referred to in Article 8 paragraph (1) letter f number 2,
- are exempted from calculation on the LLL to Related Parties as referred

to in Article 4 provided that they comply with specific requirements.

- (2) The specific requirements as referred to in paragraph (1) are as follows.
- a. The members of the Board of Commissioners of Bank are independent Board of Commissioners;
 - b. The Provision of Funds is extended on an arm's length basis and in accord with applicable general procedures of Provision of Funds;
 - c. The independent Board of Commissioners are not involved either directly or indirectly in making decision to the Provision of Funds; and
 - d. The absence of the controlling relation.

Chapter II

This Bank Indonesia Regulation shall come into force on the date of its enactment.

Enacted in Jakarta

Dated October 5, 2006

THE GOVERNOR OF BANK INDONESIA,

BURHANUDDIN ABDULLAH

STATE GAZETTE OF THE REPUBLIC OF INDONESIA NUMBER ... OF 2006

DPNP

ELUCIDATION
TO
BANK INDONESIA REGULATION
NUMBER 8/13/PBI/2006
CONCERNING
AMENDMENT TO BANK INDONESIA REGULATION NUMBER 7/3/PBI/2005
CONCERNING THE LEGAL LENDING LIMIT FOR COMMERCIAL BANKS

GENERAL

Considering their sufficiently significant role in the national economy, it is necessary that banks are persistently urged to enhance their support to national economic growth through the extension of funds to the real sector.

However, it is intensely realized that the extension of funds by banks should be supported with banks' capacity to identify, measure, supervise, and control various kinds of risk originating from the extension of funds. Among the risks encountered in the activities, concentration risk takes sufficiently significant role in which a good concentration risk management may reduce potential business failure significantly.

The improvements of the quality of bank risk management in general, among other things, through requirement for banks to apply risk management and implement good corporate governance in their business activities accompanied with consideration to promote bank intermediation function in the national economy, it is deemed necessary to adjust some stipulations on the legal lending limit (LLL).

Those ...

Those adjustments cover, among other things, the redefinition of parties classified to related parties to banks, scope of calculation of the LLL to related parties, confirmation on the formulation of borrower grouping as the result of financial interdependence, and extension of economic sector considered to be able to support the achievement of national economic developments relating to the provision of bank funds for state owned enterprises.

ARTICLE BY ARTICLE

Chapter I

Number 1

Article 1

Self-explanatory.

Number 2

Article 2

Paragraph (1)

The provisions in this paragraph are intended to ensure that risk management in respect of Related Parties and large exposures is applied on an arm's length basis commensurate to the capital resources of the Bank, and to avoid significant concentration of risk on any specific Borrower or Borrower group.

Paragraph (2)

Self-explanatory.

Paragraph (3)

Paragraph (3)

Letter a

In conducting selection and assessment of creditworthiness, Bank must ensure the availability of adequate information, including but not limited to data and information on shareholders, management, corporate tree, and financial condition of the Borrower and/or Borrower group.

Letter b

Limits on Provision of Funds shall be established no higher than the limits stipulated in this Bank Indonesia Regulation.

Limits on Provision of Funds shall be established on the basis of analysis of the structural impact of Provision of Funds on the balance sheet and risk profile of the Bank.

Analysis of the structural impact of Provision of Funds on the balance sheet and risk profile of the Bank shall take into account the overall size, type, maturity, and diversification of the Provision of Funds portfolio in order to prevent concentration of the Provision of Funds portfolio on any particular Borrower or Borrower group.

Letter c

The management information system must enable the

Bank ...

Bank management to identify, among other things, the concentration of Provision of Funds, especially those to Related Parties, large exposures, and/or Provision of Funds for other parties with interest on the Bank, on a timely basis. In addition, the scope of the management information system must include a system for generating reports to Bank management on Provision of Funds in excess of or likely to exceed limits on Provision of Funds.

Letter d

The scope of the monitoring system on Provision of Funds for Related Parties, large exposures, and/or Provision of Funds for other parties with interest on the Bank covers, among other things :

1. compliance with limits;
2. adequacy of collateral in relation to Provision of Funds;
3. identification of quality of Provision of Funds.

Letter e

The scope of remedial actions as referred in this letter covers, among other things :

1. addition of capital to resolve increased risk exposure;
2. syndication;
3. assets securitization.

Paragraph (4)

Paragraph (4)

Self-explanatory.

Paragraph (5)

Frequency of review may be intensified commensurate to developments in risk concentration of Provision of Funds.

Paragraph (6)

Self-explanatory.

Number 3

Article 8

Paragraph (1)

Letter a

Self-explanatory.

Letter b

Self-explanatory.

Letter c

Self-explanatory.

Letter d

Self-explanatory.

Letter e

Self-explanatory.

Letter f

Family ties to the second degree along horizontal and vertical lines of descent are defined as follows.

1. natural parent/step-parent/parent by adoption;
2. natural brother or sister/half-brother or sister/

brother ...

- brother or sister by adoption;
3. natural child/step-child/child by adoption;
 4. natural grandparent/step-grandparent/ grandparent by adoption;
 5. natural grandchild/step-grandchild/grandchild by adoption;
 6. natural uncle or aunt/step-uncle or step-aunt/uncle or aunt by adoption;
 7. spouse;
 8. parents-in-law or parents related to each other through marriage of children;
 9. son/daughter-in-law, whether spouse of natural child/step-child/child by adoption;
 10. grandparent of spouse;
 11. spouse of natural grandchild/step-grandchild/grandchild by adoption;
 12. brother or sister-in-law, either natural brother or sister/half-brother or sister/brother or sister by adoption of spouse or spouse of such brother or sister.

Letter g

Self-explanatory.

Letter h

Number 1)

The Board of Directors of Bank is only a Bank

Board of ...

Board of Directors of the Bank who can be members of the Board of Commissioners in subsidiary company which is controlled by the Bank, excluding those serve concurrently as stated in prevailing Bank Indonesia stipulation concerning Good Corporate Governance.

Number 2)

Self-explanatory.

Letter i

The amount of 50% (fifty percent) or more is calculated from the accumulation of members of the Board of Commissioners and/or the Board of Directors.

Letter j

Self-explanatory.

Letter k

Financial interdependence is evident from a number of factors as follows.

1. existence of financial assistance from a Borrower to another Borrower subject to terms and conditions as such nature as to bring the party extending financial assistance about to possess capacity to control influence on strategic policies of the company/legal entity receiving the financial assistance. Strategic policies are policies concerning the establishment of direction and

objectives ...

objectives of the business implementation which bring significant impact; and/or

2. existence of significant business chain relation in Bank's or related party's business operations with other company/legal entity so as to cause interdependence between one party and another party which causes :
 - a. one of the parties is not capable to transfer business transactions to another party easily; and
 - b. the incapability to transfer the business transactions easily may bring another party's cash flow about to be significantly disturbed so as to face difficulties in fulfilling its liabilities.

Letter l

Self-explanatory.

Letter m and Letter n

Guarantee is defined as a commitment issued by one party to take over and/or settle the liabilities of an indebted party in part or in full in the event of default by the indebted party.

Letter o

Self-explanatory.

Letter p

Interest ...

Interest is if there is a control from the ownership, management, and financial relationship.

Paragraph (2)

Holding shares indirectly is defined as ownership or control of either collectively or through another party, including :

1. shares in the Bank or other company/legal entity owned by another party whose voting rights may be exercised or controlled by the controlling party;
2. shares in the Bank or other company/legal entity owned by the party under control of the controlling party;
3. shares in the Bank or other company/legal entity owned by an affiliated party of the controlling party;
4. shares in the Bank or other company/legal entity owned by a subsidiary of other company/legal entity controlled by the controlling party;
5. shares in the Bank or other company/legal entity held by parties acting on behalf of and in the name of the controlling party (nominee shares), whether based on or not based on a specific agreement;
6. shares in the Bank or another company/legal entity held by other parties of which transfer requires approval from the controlling party;
7. shares in another company/legal entity held by the Bank through a company/legal entity which is controlled by the Bank through a chain of ownership

Extending to ...

extending to the ultimate subsidiary;

8. shares in the Bank or another company/legal entity other than the shares as referred to in Number 1 through Number 7 which are controlled by the Bank or the controlling party.

Affiliated party of the controlling party as referred to in Number 3 is defined as :

- a. the Board of Commissioners, Board of Directors, or those equivalent or appointee thereof, officers, or employees of the controlling company;
- b. executive, supervisor, management, or appointee thereof, officers, or employees of the controlling company, especially for a company legally incorporated as a cooperative;
- c. any party which provides services for the controlling company, such as public accountant, appraiser, legal consultant, and other consultants proven to be subject to control of the controlling party;
- d. any party with family ties to the controlling party to the second degree whether by horizontal or vertical lines of marriage or descent, including parents related to each other through the marriage of their children;
- e. any party which in the opinion of Bank Indonesia participates in an influential capacity to the management of the controlling party, such as the

shareholders ...

shareholders and their relatives, relatives of the Board of Commissioners, relatives of the supervisory board, relatives of the Board of Directors, and relatives of the executive board.

The definition of shares is all kinds of shares possessing voting rights

Letter a

Self-explanatory.

Letter b

Self-explanatory.

Letter c

Self-explanatory.

Letter d

Self-explanatory.

Letter e

Self-explanatory.

Letter f

Strategic policy is defined as a policy concerning the establishment of direction and objectives of business implementation which brings significant impacts.

Letter g

Self-explanatory.

Letter h

Self-explanatory.

Paragraph (3)

Holding ...

Holding shares indirectly is defined as ownership or control of shares either collectively or through another party, including :

1. shares in another company/legal entity held by another party whose voting rights may be exercised or controlled by the controlling party;
2. shares in another company/legal entity held by a party controlled by the controlling party;
3. shares in another company/legal entity held by an affiliated party of the controlling party;
4. shares in another company/legal entity held by a subsidiary of a company/legal entity under control of the controlling party;
5. shares in another company/legal entity held by parties acting on behalf of and in the name of the controlling party (nominee shares) whether based on or not based on a specific agreement;
6. shares in another company/legal entity held by other party for which transfer requires approval from the controlling party;
7. shares in another company/legal entity held by a company/legal entity under control of the controlling party through a chain of ownership extending to the ultimate subsidiary;
8. shares in another company/legal entity other than the

shares ...

shares as referred to in number 1 through number 7 which are controlled by the controlling party.

Affiliated parties of the controlling party as referred to in number 3 are :

1. the Board of Commissioners, Board of Directors, or equivalent or appointee thereof, officers, or employees of the controlling company;
2. executive board, supervisors, management, or appointee thereof, officers, or employees of the controlling company, especially for a company legally incorporated as a cooperative;
3. any party providing services for the controlling company, such as public accountant, appraisal company, legal consultant, and other consultants proven to be controlled by the controlling party;
4. any party with family ties to the controlling party to the second degree, whether by horizontal or vertical lines of marriage or descent, including parents related to each other through the marriage of their children;
5. the party which in the opinion of Bank Indonesia participates in an influential capacity in the management of the controlling party, such as shareholders and their relatives, relatives of the Board of Commissioners, relatives of the supervisory board, relatives of the Board of Directors, and relatives of the

executive ...

executive board.

Shares are defined as all kinds of shares possessing voting rights.

Letter a

Self-explanatory.

Letter b

Self-explanatory.

Letter c

Self-explanatory.

Letter d

Self-explanatory.

Letter e

Self-explanatory.

Letter f

Self-explanatory.

Letter g

Strategic policy is defined as policies concerning the establishment of direction and objectives of business implementation which have significant impact.

Number 4

Article 12

Paragraph (1)

Letter a

Self-explanatory.

Letter b

Example : ...

Example :

Company A and company B obtain Provision of Funds from a Bank and 25% (twenty five percent) or more of those companies' shares, respectively, is owned by company C. Accordingly, company A and company B are grouped together into 1 (one) Borrower group. If company C is a Borrower of the Bank, company A, company B, and company C shall be grouped together into 1 (one) Borrower group.

Letter c

Financial interdependence may be analyzed based on a number of factors as follows.

1. existence of financial assistance from a Borrower to another Borrower subject to terms and conditions as such nature as to bring the party extending financial assistance about to possess capacity to control influence on strategic policies of the company/legal entity receiving the financial assistance. Strategic policies are policies concerning the establishment of direction and objectives of the business implementation which bring significant impact; and/or
2. existence of significant business chain relation in Bank's or related party's business operations with other company/legal entity so as to cause

interdependence ...

interdependence between one party and another party which causes :

- a. one of the parties is not capable to transfer business transactions to another party easily; and
- b. the incapability to transfer the business transactions easily may bring another party's cash flow about to be significantly disturbed so as to face difficulties in fulfilling its liabilities.

Letter d

Guarantee is defined as a commitment issued by one party to take over and/or settle the liabilities of an indebted party in part or in full in the event of default by the indebted party.

Letter e

Self-explanatory.

Paragraph (2)

Self-explanatory.

Number 5

Article 23

Paragraph (1)

Letter a

Self-explanatory.

Letter b

Self-explanatory ...

Self-explanatory.

Letter c

Included in any change in fair value is, among other things, any change in value recording of equity participation under the equity method beyond 1 (one) year or recording of Securities holdings according to mark to market.

Letter d

Self-explanatory.

Letter e

Amendment to regulatory provisions includes any amendment of parties categorized as Related Party or Borrower group.

Paragraph (2)

Self-explanatory.

Paragraph (3)

The carrying value at the reporting date shall be as stipulated in the applicable Financial Accounting Standards for each instrument. In the specific case of Derivative Transactions, the value recorded at reporting date shall include the value of Potential Future Credit Exposure.

Number 6

Article 24

Paragraph (1)

Self-explanatory.

Paragraph (2)

Paragraph (2)

Self-explanatory.

Paragraph (3)

Self-explanatory.

Paragraph (4)

Self-explanatory.

Number 7

Article 30

Paragraph (1)

“Government blanket guarantee scheme does not cover Placements” is defined as including any case in which a Placement does not meet requirements for guarantee coverage under the Government blanket guarantee scheme.

The Government blanket guarantee scheme shall refer to the laws and regulations concerning the Deposit Insurance Agency.

Paragraph (2)

Liquidity management is defined as activities implemented by Banks to manage liquidity risk and optimize the availability of liquidity.

Number 8

Article 37

Letter a

Self-explanatory.

Letter b

“To have ...

“To have direct risk” is a state that the quality of Provision of Funds extended by Bank to customer (end-user) under channeling method through finance institution directly reflects current risk of each customer (end user).

Letter c

Collateral provided by a customer shall be bound in favor of the Bank in such manner as to enable immediate foreclosure of collateral by the Bank in event of default.

Letter d

Excluded from payment from customers (end-users) in favor of Bank is spread originating from interest spread received by Bank and finance institution constituting services for finance institution in credit management.

Letter e

Self-explanatory.

Number 9

Article 40

Paragraph (1)

State Owned Enterprise (SOE) in this Article is defined as an enterprise in which capital is wholly or partially owned by the state through direct equity participation taken from state assets set aside as stipulated in the applicable laws and regulation.

“Provision of Funds for a SOE for development of benefit to the well being of the general population” is defined as

Provision ...

Provision of Funds for :

1. procurement of foodstuffs;
2. procurement of very low cost housing;
3. procurement/provision/management of oil and natural gas and other equivalent natural resources;
4. procurement/processing of export oriented commodities;
5. procurement/provision/management of water;
6. procurement/provision/management of electricity;
7. procurement of supporting infrastructure for land, sea, and air transportation in the form of construction of roads, bridges, railroads, seaports, and airports..

Paragraph (2) and Paragraph (3)

Regional Government Enterprise (RGE) in this paragraph is defined as a business entity with capital owned by a regional government, whether in a whole or in part, through direct equity participation financed from regional government assets set aside as stipulated in the applicable laws and regulations.

Included in RGE is a SOE Bank which is restructured to be a part of a bank holding company constituting SOE.

Number 10

Article 40A

Letter a

Example :

Bank A controls pension fund B. Companies owned by

pension ...

pension fund B do not constitute related parties of Bank A as far as :

1. there is no other direct control from Bank A; and/or
2. there is no other control from pension fund B than ownership.

The definition of pension fund shall refer to stipulations in the applicable laws and regulations.

Letter b

Self-explanatory.

Article 40B

Paragraph (1)

Self-explanatory.

Paragraph (2)

Letter a

Self-explanatory.

Letter b

Self-explanatory.

Letter c

Included in the extension of Provision of Funds by Bank is extension of period of the Provision of Funds.

Paragraph (3)

Explanation on each criteria as referred to in number 1 through number 7 refers to applicable stipulations concerning the follow up of supervision and establishment of the status of Bank.

Article 40C ...

Article 40C

Paragraph (1)

Self-explanatory.

Paragraph (2)

Letter a

The definition of independent Board of Commissioners refers to applicable Bank Indonesia stipulations concerning the implementation of Good Corporate Governance for Commercial Banks.

Letter b

Self-explanatory.

Letter c

Self-explanatory.

Letter d

Self-explanatory.

Article II

Self-explanatory.

SUPPLEMENT TO THE STATE GAZETTE OF THE REPUBLIC OF
INDONESIA NUMBER ...

DPNP